

OPEN MEETING ITEM



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COMMISSIONERS
KRISTIN K. MAYES - Chairman
GARY PIERCE
PAUL NEWMAN
SANDRA D. KENNEDY
BOB STUMP



RECEIVED
Executive Director

ARIZONA CORPORATION COMMISSION 2010 JUL -1 A 10:18

ORIGINAL

AZ CORP COMMISSION
DOCKET CONTROL

DATE: JULY 1, 2010
DOCKET NO.: W-01536A-09-0410

TO ALL PARTIES:

Enclosed please find the recommendation of Administrative Law Judge Belinda A. Martin. The recommendation has been filed in the form of an Order on:

LAZY C WATER SERVICE
(RATES)

Pursuant to A.A.C. R14-3-110(B), you may file exceptions to the recommendation of the Administrative Law Judge by filing an original and thirteen (13) copies of the exceptions with the Commission's Docket Control at the address listed below by 4:00 p.m. on or before:

JULY 12, 2010

The enclosed is NOT an order of the Commission, but a recommendation of the Administrative Law Judge to the Commissioners. Consideration of this matter has tentatively been scheduled for the Commission's Open Meeting to be held on:

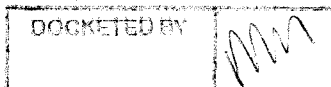
JULY 27, 2010 and JULY 28, 2010

For more information, you may contact Docket Control at (602) 542-3477 or the Hearing Division at (602) 542-4250. For information about the Open Meeting, contact the Executive Director's Office at (602) 542-3931.

Arizona Corporation Commission

DOCKETED

JUL - 1 2010



ERNEST G. JOHNSON
EXECUTIVE DIRECTOR

1200 WEST WASHINGTON STREET; PHOENIX, ARIZONA 85007-2927 / 400 WEST CONGRESS STREET; TUCSON, ARIZONA 85701-1347

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This document is available in alternative formats by contacting Shaylin Bernal, ADA Coordinator, voice phone number 602-542-3931, E-mail SABernal@azcc.gov

1 **BEFORE THE ARIZONA CORPORATION COMMISSION**

2 **COMMISSIONERS**

3 KRISTIN K. MAYES, Chairman
4 GARY PIERCE
5 PAUL NEWMAN
6 SANDRA D. KENNEDY
7 BOB STUMP

8 IN THE MATTER OF THE APPLICATION
9 OF LAZY C WATER SERVICE FOR A
10 PERMANENT RATE INCREASE.

DOCKET NO. W-01536A-09-0410

11 DECISION NO. _____

12 **ORDER**

13 Open Meeting
14 July 27 and 28, 2010
15 Phoenix, Arizona

16 **BY THE COMMISSION:**

17 * * * * *

18 Having considered the entire record herein and being fully advised in the premises, the
19 Commission finds, concludes, and orders that:

20 **FINDINGS OF FACT**

21 1. Lazy C Water Service ("Lazy C" or "Company"), is an Arizona 'C' corporation
22 engaged in the business of providing water utility service to the public approximately six miles
23 northwest of Tucson, in Pima County, Arizona, pursuant to authority granted by the Arizona
24 Corporation Commission ("Commission") in Decision No. 30454 (August 16, 1957).¹ The
25 Company's current rates and charges for water service were approved in Decision No. 67161 (August
26 10, 2004).

27 2. On August 28, 2009, Lazy C filed with the Commission an application for a
28 permanent rate increase ("Application").

¹ The original Certificate of Convenience and Necessity ("CC&N") was issued to Mrs. Joseph Canfield d/b/a Lazy C Water Service. In Decision No. 56606 (August 24, 1989), the Commission authorized the transfer of Lazy C's CC&N to Box One, Inc., Lazy C's current owner.

1 3. On September 25, 2009, the Commission's Utilities Division Staff ("Staff") issued its
2 Letter of Deficiency.

3 4. On November 13, 2009, the Company filed its Responses to Staff's Letter of
4 Deficiency.

5 5. On December 10, 2009, Staff issued its Second Letter of Deficiency.

6 6. On March 9, 2010, Staff filed its Sufficiency Letter and on March 12, 2010, filed its
7 Amended Letter of Sufficiency, classifying the Company as a Class D utility.

8 7. On May 24, 2010, Staff filed its Staff Report recommending approval of the
9 Company's Application, subject to certain conditions.

10 8. The Company notified its customers of the proposed rates and charges by first class
11 U.S. mail on August 26, 2009. One customer filed a comment in opposition to the Company's
12 requested rate increase.

13 9. According to Staff, Lazy C's water system is comprised of two wells, three storage
14 tanks, four pressure tanks, three booster pumps and a distribution system. The Company's total
15 production capacity of 173 gallons per minute ("gpm") consists of 98 gpm from its wells and 75 gpm
16 from an interconnection with the City of Tucson, and it has storage capacity of 135,000 gallons.
17 Based on this, Staff determined that Lazy C has adequate capacity to serve its customers as well as
18 reasonable growth.

19 10. During the test year ended December 31, 2008, the Company served approximately
20 106 customers on 5/8" x 3/4" meters, 25 customers on 1" meters, and one customer on a 1-1/2"
21 meter.

22 11. Average and median usage on the 5/8" x 3/4" meters during the test year were 11,249
23 and 8,333 gallons per month, respectively.

24 12. The rates and charges for the Company at present, as proposed in the Application, and
25 as recommended by Staff are as follows:

26 ...

27 ...

	Present Rates	Company Proposed	Staff Recommended
<u>MONTHLY USAGE CHARGE:</u>			
5/8" x 3/4" Meter	\$ 19.00	\$ 24.70	\$ 19.00
3/4" Meter	28.50	37.05	28.28
1" Meter	35.63	46.32	47.50
1-1/2" Meter	41.56	54.03	75.00
2" Meter	128.00	166.40	150.80
3" Meter	285.00	370.50	301.60
4" Meter	475.00	617.50	471.25
6" Meter	950.00	1,235.00	942.50

COMMODITY RATES:

Tier One Rate – 0-3,000 gallons	\$ 2.45	\$ 3.18	\$ 2.45
Tier Two Rate – 3,001 – 9,000 gallons	N/A	N/A	4.00
Tier Two Rate – 3,001 – 10,000 gallons	3.83	4.98	N/A
Tier Three Rate – Over 9,000 gallons	N/A	N/A	5.50
Tier Three Rate – Over 10,000 gallons	5.20	6.76	N/A
Standpipe (Per 1,000 gallons)	3.00	5.65	5.50

SERVICE LINE AND METER INSTALLATION CHARGES:

	Present Rates	Company's Proposed	Staff Recommended Service Line Charges	Staff Recommended Meter Installation	Staff Recommended Total
5/8" x 3/4" Meter	\$ 406.00	\$ 528.00	\$ 420.00	\$ 108.00	\$ 528.00
3/4" Meter	455.00	592.00	395.00	197.00	592.00
1" Meter	520.00	676.00	430.00	246.00	676.00
1-1/2" Meter	740.00	962.00	505.00	457.00	962.00
2" Meter	1,235.00	1,606.00	716.00	890.00	1,606.00
3" Meter	1,705.00	2,217.00	855.00	1,362.00	2,217.00
4" Meter	2,700.00	3,510.00	1,255.00	2,255.00	3,510.00
6" Meter	5,035.00	6,546.00	1,990.00	4,556.00	6,546.00
Over 6-inch	Actual Cost	Actual Cost	Actual Cost	Actual Cost	Actual Cost

SERVICE CHARGES:

	Present Rates	Company Proposed	Staff Recommended
Establishment	\$ 15.00	\$ 20.00	\$ 20.00
Establishment (After Hours)	25.00	33.00	33.00
Reconnection (Delinquent)	15.00	20.00	20.00
Meter Test (If Correct)	25.00	33.00	33.00
Deposit	*	*	*
Deposit Interest	**	**	**
Re-Establishment (Within 12 Months)	***	***	***
NSF Check	\$15.00	\$20.00	\$20.00
Deferred Payment	N/A	N/A	N/A
Meter Re-Read (If Correct)	\$10.00	\$15.00	\$15.00
Late Payment Charge-Per-Month	N/A	N/A	N/A
Charge for Moving Meter	Minimum Cost	Minimum Cost	Minimum Cost

MONTHLY SERVICE CHARGE FOR FIRE SPRINKLER:

4" or Smaller	\$0.00	\$0.00	****
6"	0.00	0.00	****
8"	0.00	0.00	****
10"	0.00	0.00	****
Larger than 10"	0.00	0.00	****

* Per Commission Rule A.A.C. R14-2-403(B)(7).

** Per Commission Rule A.A.C. R14-2-403(B)(3).

*** Months off system times the monthly minimum A.A.C. R14-2-403(D).

**** 2.00% of Monthly Minimum for a Comparable Sized Meter Connection, but no less than \$10.00 per month. The Service Charge for Fire Sprinklers is only applicable for service lines separate and distinct from the primary water service line.

13. Staff determined Lazy C's original cost rate base, which is the same as its fair value rate base ("FVRB"), to be \$71,814. This is a \$244,345 decrease to Lazy C's proposed FVRB of \$316,159, based primarily upon Staff's adjustments to plant-in-service, accumulated depreciation, and working capital. Staff's proposed rate base adjustments are reasonable and will be adopted.

14. During the test year, Lazy C collected total operating revenues of \$102,674. Staff made no adjustments to test year operating revenues.

15. Staff decreased Lazy C's claimed test year operating expenses by \$32,889, from \$129,747 to \$96,858, due to adjustments to purchased water expense, repairs and maintenance expense, office supplies expense, outside services, water testing expense, miscellaneous expense, depreciation expense, property tax expense and income tax expense. Staff's proposed adjustments to operating expenses are reasonable and will be adopted.

16. Based on Staff's analysis, Lazy C's present water rates and charges produced operating revenues of \$102,674 and adjusted operating expenses of \$96,858, which resulted in an adjusted test year net operating income of \$5,816, for a rate of return on Staff's adjusted FVRB of 8.10 percent and a 5.66 percent operating margin.

17. The water rates and charges Lazy C proposed would produce operating revenue of \$133,476 and operating expenses of \$129,747, resulting in an operating income of \$3,729, for a 1.18 percent rate of return on its proposed \$316,159 FVRB, and an operating margin of 2.79 percent.

18. The water rates and charges Staff recommends would produce operating revenues of \$114,352 and operating expenses of \$99,489, resulting in a \$14,863 operating income, for a 20.70 percent rate of return on Staff's recommended \$71,814 FVRB, and an operating margin of 13.00 percent.

1 19. The Company's proposed rate schedule would increase the average monthly
2 residential customer bill (11,249 gallons, on a 5/8" x 3/4" meter) by \$17.89, or 30.0 percent, from
3 \$59.65 to \$77.54 and would increase the median monthly residential customer bill (8,333 gallons, on
4 a 5/8" x 3/4" meter) by \$14.02, or 30.0 percent, from \$46.78 to \$60.80.

5 20. Staff's recommended rates would increase the average monthly residential customer
6 bill (11,249 gallons, on a 5/8" x 3/4" meter) by \$3.07, or 5.1 percent, from \$59.65 to \$62.72 and
7 would increase the median monthly residential customer bill (8,333 gallons, on a 5/8" x 3/4" meter)
8 by \$.90, or 1.9 percent, from \$46.78 to \$47.68.

9 21. The Company did not object to Staff's recommended rates and charges and we find
10 that Staff's recommended rates are reasonable and will be adopted.

11 22. Staff recommends that the Company file with the Commission a schedule of its
12 approved rates and charges no later than 30 days from the effective date of this Decision.

13 23. According to Staff, the Arizona Department of Environmental Quality ("ADEQ")
14 reported that during its last sanitary survey, it found significant deficiencies regarding the Company's
15 management and operation. Staff notes that the sole remaining issue relates to Lazy C's lack of a
16 certified operator. As such, ADEQ cannot determine if Lazy C's water system is currently delivering
17 water that meets drinking water quality standards required by 40 C.F.R. 141 and Arizona
18 Administrative Code ("A.A.C."), Title 18, Chapter 4.

19 24. Staff recommends that any increase in permanent rates and charges in this matter
20 should become effective on the first day of the month after the Company files with Docket Control,
21 as a compliance item in this Docket, documentation from ADEQ indicating that there are no
22 compliance deficiencies and that the Company's water system is delivering water that meets the
23 water quality standards required by 40 C.F.R. 141 and A.A.C., Title 18, Chapter 4.

24 25. In Lazy C's last rate case, the Commission ordered the Company to adopt Staff's
25 recommended depreciation rates for each plant account. Staff found that Lazy C did not comply with
26 this requirement.² Accordingly, Staff recommends that the Company adopt the depreciation rates as

27 _____
28 ² Staff's calculations of accumulated depreciation in this matter included a recalculation of Lazy C's plant depreciation based on the depreciation rates approved in the prior rate case.

1 set forth in Table B to the Engineering Report, appended to the Staff Report as Attachment A, no
2 later than 30 days from the effective date of this Decision.

3 26. During Engineering Staff's review of Lazy C's water use data, Staff found that the
4 Company reported 16,147,248 gallons of water pumped/purchased and 17,509,490, gallons of water
5 sold, indicating that it sold more gallons of water than it pumped. The Company asserted that the
6 discrepancy could have been due to malfunctioning well meters during the test year. Lazy C states
7 that both well meters were replaced in February 2010.

8 27. Due to the discrepancy between gallons pumped/purchased and gallons sold, Staff
9 recommends that the Company be ordered to monitor the well pump meters to ensure they are
10 working properly, and if they are not, Lazy C should repair or replace the well meters as necessary
11 within 30 days from the discovery of any malfunction.

12 28. Further, Staff recommends that the Company continue to monitor the water system
13 closely and take action to ensure that water loss is less than 10 percent in the future. If the water loss
14 at any time before the next rate case is greater than 10 percent, the Company shall come up with a
15 plan to reduce water loss to less than 10 percent, or prepare a report containing a detailed analysis and
16 explanation demonstrating why a water loss reduction to 10 percent or less is not feasible or cost
17 effective. The report should be filed with Docket Control.

18 29. The Company is within the Tucson Active Management Area. The Arizona
19 Department of Water Resources issued a compliance status report dated March 17, 2010, indicating
20 that the Company is in compliance with departmental requirements governing water providers and/or
21 community water systems.

22 30. Staff recommends that Lazy C be authorized to collect from its customers a
23 proportionate share of any privilege, sales or use tax as provided for in A.A.C. R-14-2-409(D).

24 31. Because an allowance for Lazy C's property tax expense is included in the Company's
25 rates and will be collected from its customers, the Commission seeks assurances from the Company
26 that any taxes collected from ratepayers are being remitted to the appropriate taxing authority. It has
27 come to the Commission's attention that a number of water companies have been unwilling or unable
28

1 to fulfill their obligation to pay the taxes that were collected from ratepayers, some for as many as
 2 twenty years. It is reasonable, therefore, as a preventive measure that Lazy C annually file, as part of
 3 its annual report, an affidavit with the Utilities Division attesting that the Company is current in
 4 paying its property taxes in Arizona.

5 32. We find that Staff's recommendations, as well as the recommendation set forth in
 6 Findings of Fact No. 31, are reasonable and should be adopted.

7 CONCLUSIONS OF LAW

8 1. Lazy C is a public service corporation within the meaning of Article XV of the
 9 Arizona Constitution and A.R.S. §§ 40-250 and 40-251.

10 2. The Commission has jurisdiction over Lazy C and of the subject matter of the
 11 Application.

12 3. Notice of the Application was provided in the manner prescribed by law.

13 4. The rates and charges authorized below are just and reasonable and should be
 14 approved without a hearing.

15 5. Staff's recommendations, as well as the recommendation set forth in Findings of Fact
 16 No. 31, are reasonable and should be adopted.

17 ORDER

18 IT IS THEREFORE ORDERED that Lazy C Water Service is hereby directed to file with
 19 Docket Control, as a compliance item in this docket, within 30 days of the effective date of this
 20 Decision, revised rate schedules setting forth the following rates and charges:

21 MONTHLY USAGE CHARGE:

22 5/8" x 3/4" Meter	\$ 19.00
23 3/4" Meter	28.28
24 1" Meter	47.50
25 1-1/2" Meter	75.00
26 2" Meter	150.80
27 3" Meter	301.60
28 4" Meter	471.25
6" Meter	942.50

...

COMMODITY RATES:

(Per 1,000 Gallons)

0-3,000 gallons	\$2.45
3,001 – 9,000 gallons	4.00
Over 9,000 gallons	5.50
Standpipe (Per 1,000 gallons)	5.50

SERVICE LINE AND METER INSTALLATION CHARGES:

	Service Line Charge	Meter Installation	Total
5/8" x 3/4" Meter	\$ 420.00	\$ 108.00	\$ 528.00
3/4" Meter	395.00	197.00	592.00
1" Meter	430.00	246.00	676.00
1-1/2" Meter	505.00	457.00	962.00
2" Meter	716.00	890.00	1,606.00
3" Meter	855.00	1,362.00	2,217.00
4" Meter	1,255.00	2,255.00	3,510.00
6" Meter	1,990.00	4,556.00	6,546.00
Over 6"	Actual Cost	Actual Cost	Actual Cost

SERVICE CHARGES:

Establishment	\$20.00
Establishment (After Hours)	33.00
Reconnection (Delinquent)	20.00
Meter Test (If Correct)	33.00
Deposit	*
Deposit Interest	**
Re-Establishment (Within 12 Months)	***
NSF Check	\$20.00
Deferred Payment	N/A
Meter Re-Read (If Correct)	\$15.00
Late Payment Charge-Per-Month	N/A
Charge for Moving Meter	Minimum Cost

MONTHLY SERVICE CHARGE FOR FIRE SPRINKLER:

4" or Smaller	****
6"	****
8"	****
10"	****
Larger than 10"	****

* Per Commission Rule A.A.C. R14-2-403(B)(7).

** Per Commission Rule A.A.C. R14-2-403(B)(3).

*** Months off system times the monthly minimum A.A.C. R14-2-403(D).

**** 2.00% of Monthly Minimum for a Comparable Sized Meter Connection, but no less than \$10.00 per month. The Service Charge for Fire Sprinklers is only applicable for service lines separate and distinct from the primary water service line.

1 IT IS FURTHER ORDERED that the above rates and charges shall become effective on the
2 first day of the month after Lazy C Water Service files with Docket Control, as a compliance item in
3 this docket, documentation from ADEQ indicating that there are no compliance deficiencies and Lazy
4 C Water Service's water system is delivering water that meets the water quality standards required by
5 40 C.F.R. 141 and A.A.C., Title 18, Chapter 4.

6 IT IS FURTHER ORDERED that Lazy C Water Service shall notify its customers of the rates
7 and charges authorized herein, and their effective date, in a form acceptable to the Commission's
8 Utilities Division Staff, by means of an insert in the Company's billing.

9 IT IS FURTHER ORDERED that Lazy C Water Service shall adopt the depreciation rates as
10 set forth in Table B to the Engineering Report, and attached hereto as Exhibit A, no later than 30 days
11 from the effective date of this Decision.

12 IT IS FURTHER ORDERED that Lazy C Water Service shall continue to monitor and assure
13 that its well pump meters are working properly, and if it is determined that they are not, Lazy C
14 Water Service shall repair or replace such well pump meters within 30 days after such determination.

15 IT IS FURTHER ORDERED that Lazy C Water Service shall continue to monitor closely its
16 water system and take actions to ensure that its water loss is less than 10 percent. If the water loss at
17 any time before the next rate case is greater than 10 percent, Lazy C Water Service shall develop a
18 plan to reduce the water loss to less than 10 percent, or prepare a report containing a detailed analysis
19 and explanation demonstrating why a water loss reduction to 10 percent or less is not feasible or cost
20 effective. The water loss reduction report or the detailed analysis, whichever is submitted, shall be
21 filed with Docket Control.

22 IT IS FURTHER ORDERED that in addition to collection of its regular rates and charges,
23 Lazy C Water Service shall collect from its customers a proportionate share of any privilege, sales or
24 use tax per A.C.C. R14-2-409(D).

25 ...

26 ...

27 ...

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1 IT IS FURTHER ORDERED that Lazy C Water Service shall annually file as part of its
2 annual report, an affidavit with the Utilities Division attesting that Lazy C Water Service is current in
3 paying its property taxes in Arizona.

4 IT IS FURTHER ORDERED that this Decision shall become effective immediately.

5 BY ORDER OF THE ARIZONA CORPORATION COMMISSION.

6
7 CHAIRMAN _____ COMMISSIONER _____

8
9
10 COMMISSIONER _____ COMMISSIONER _____ COMMISSIONER _____

11 IN WITNESS WHEREOF, I, ERNEST G. JOHNSON,
12 Executive Director of the Arizona Corporation Commission,
13 have hereunto set my hand and caused the official seal of the
14 Commission to be affixed at the Capitol, in the City of Phoenix,
15 this ____ day of _____, 2010.

16 ERNEST G. JOHNSON _____
17 EXECUTIVE DIRECTOR

18
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20 DISSENT _____

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22 DISSENT _____

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1 SERVICE LIST FOR: LAZY C WATER SERVICE

2 DOCKET NO. W-01536A-09-0410

3

Robert Canfield
4 LAZY C WATER SERVICE
P. O. Box 1
5 Tucson, AZ 85745

6 Janice Alward, Chief Counsel
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7 ARIZONA CORPORATION COMMISSION
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12

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Lazy C Water Service

EXHIBIT "A"

Table B. Depreciation Rates

NARUC Acct. No.	Depreciable Plant	Average Service Life (Years)	Annual Accrual Rate (%)
304	Structures & Improvements	30	3.33
305	Collecting & Impounding Reservoirs	40	2.50
306	Lake, River, Canal Intakes	40	2.50
307	Wells & Springs	30	3.33
308	Infiltration Galleries	15	6.67
309	Raw Water Supply Mains	50	2.00
310	Power Generation Equipment	20	5.00
311	Pumping Equipment	8	12.5
320	Water Treatment Equipment		
320.1	Water Treatment Plants	30	3.33
320.2	Solution Chemical Feeders	5	20.0
330	Distribution Reservoirs & Standpipes		
330.1	Storage Tanks	45	2.22
330.2	Pressure Tanks	20	5.00
331	Transmission & Distribution Mains	50	2.00
333	Services	30	3.33
334	Meters	12	8.33
335	Hydrants	50	2.00
336	Backflow Prevention Devices	15	6.67
339	Other Plant & Misc Equipment	15	6.67
340	Office Furniture & Equipment	15	6.67
340.1	Computers & Software	5	20.00
341	Transportation Equipment	5	20.00
342	Stores Equipment	25	4.00
343	Tools, Shop & Garage Equipment	20	5.00
344	Laboratory Equipment	10	10.00
345	Power Operated Equipment	20	5.00
346	Communication Equipment	10	10.00
347	Miscellaneous Equipment	10	10.00
348	Other Tangible Plant	----	----

NOTES:

- These depreciation rates represent average expected rates. Water companies may experience different rates due to variations in construction, environment, or the physical and chemical characteristics of the water.
- Acct. 348, Other Tangible Plant may vary from 5 percent to 50 percent. The depreciation rate would be set in accordance with the specific capital items in this account.

DECISION NO. _____